 By Daryll E. Ray

Cost of being COOL

In a previous column, we discussed three possible ways to implement Country of Origin (COOL) labeling, identified by the International Agricultural Trade and Policy Center in the paper, "Country of origin labeling: A legal and economic analysis." One option required a complex system of New Record Keeping and Third Party Verification. The second was more of a Self-Verification approach and the third, the Presumption of U.S. Origin if the meat did not carry a mark from another country.

As we remarked in that discussion the cost is dependent upon which of the three options one uses to implement the legislation's provisions. USDA's estimate of implementation costs of COOL approached $2 billion the first year. It should be noted that the legislation, itself, does not require, and may even prohibit, the requirement of procedures that would establish a mandatory identification system that would allow meat to be traced back to the farm of origin.

As a result the IATPC authors argue that if the Presumption of U.S. Origin Rule were adopted by those writing the implementation regulations, it would, fulfill all of the requirements of the legislation and, at the same time, impose minimal additional costs and paperwork on producers, processors, suppliers, and retailers. IATPC estimates the additional cost to be between $69.86 million and $193.43 million.

IATPC justifies their lower numbers by pointing out three areas in which they believe others have used questionable assumptions that greatly affect their cost estimates. The most important assumption is the approach used to implement the legislation. The IATPC authors argue with the use of the Presumption of U.S. Origin Rule most of the records required to verify country of origin are ones that producers and processors already keep. Only a relatively small number of cattle and sheep will require additional record keeping to identify them as non-U.S. product.

The second area where IATPC found costs to be overestimated was in the number of entities covered by the legislation. USDA assumed 2 million producers would need to maintain records while the IATPC study argued that only 1.3 million would be covered by the rules. The others exclusively produce non-covered products like corn, wheat and soybeans. Likewise the study identified the number of food handlers that would be affected as 23,896 compared to USDA's 100,000. Again many of the handlers in the USDA list do not handle covered commodities.

USDA assumed an hourly cost of $25 and $50 per hour while the study's authors quoted Bureau of Labor Statistics figures that put the costs at $7.67, $9.00, $13.60, and $24.75 per hour, depending on the job category. In the case of the additional costs imposed on retailers, the study also argued that because of existing records that need to be maintained for other programs "the USDA time estimate can be reduced by at least 50 percent."

If IATPC is correct the cost to the agricultural and food industry amounts to less than one tenth of one cent per pound for all covered products, a figure that is unlikely to have a measurable impact on the retail consumer of "muscle cuts of beef, lamb, and pork; ground beef, ground lamb, and ground pork; farm-raised fish and shellfish; wild fish and shellfish; perishable agricultural commodities; and peanuts." They assert that costs at this level will not put covered U.S. products at a price disadvantage when compared to non-covered products.

In addition to looking at the costs of the COOL legislation, the IATPC study argues that there are benefits to the legislation as well. For the most part the critics of COOL have ignored or minimized any benefits that may arise from country of origin labeling.

From the point of view of an economist, one of the most important benefits of the legislation is that it increases transparency, balancing out information between the buyer and the seller. With that information in hand the buyer can make an informed decision. Based on earlier studies, the authors argue that meat that is labeled "United States country of origin" may command a higher price at the retail counter.

There may well be price benefits that will filter back to cattle producers in the short-run¾fewer benefits, I suspect, in the long-run. Will the monetary benefits to producers of labeling exceed the cost? I don't know. I do, however, believe that consumers make more informed decisions and thereby "benefit" from having full or increased information about products they consume. Choosing the least costly way to provide the legislatively required information, regardless of benefit measurement issues, is appealing to me.

For those who wish to read the full report it is available at http://www.iatpc.fred.ifas.ufl.edu/docs/policy_brief/PBTC_03-5.pdf. The study's authors are John VanSickle, IATPC, University of Florida; Roger McEowen, Kansas State University; C. Robert Taylor, Auburn University; Neil E. Harl, Iowa State University; and John Connor, Purdue University. USDA provides information on COOL at http://www.ams.usda.gov/cool/.

*Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of the UT's Agricultural Policy Analysis Center. (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; http://*agpolicy.org.

Originally published in *MidAmerica Farmer Grower*, Vol. 21, No. 19, May 23, 2003